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Message Text

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72
ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 FEAE-00 INT-08 DODE-00 PA-04 USIA-15 PRS-01

DRC-01 /171 W
---------- 009511
R 031544Z SEP 74
FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 5946
INFO AMEMBASSY LONON
AMEMBASSY OTTAWA

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E.O. 11652: N/A
TAGS: EMIN EI
SUBJ: DISPUTE FLARES OVER NAVAN ORE DEPOSIT

REF: A-123, AUGUST 30, 1972; A-140, OCTOBER 25, 1972;
A-131, SEPTEMBER 4, 1973; A-66, MAY 10, 1973;
A-54, JUN 1974

SUMMARY: CONCERN IS GROWING OVER IMPASSE IN NEGOTIATIONS BE-
TWEEN GOVERNMENT AND CANADIAN-CONTROLLED TARA MINES FOR DEVELOP-
MENT OF NAVAN LEAD/ZINC DEPOSITS, BELIEVED TO BE LARGEST IN
EUROPE. BASIC ISSUES ARE EXTENT OF STATE CONTROL AND
FINANCIAL TERMS OF MINING LEASE TO BE GRANTED TO TARA. THERE
HAVE BEEN INCONCLUSIVE MEETINGS BETWEEN GOI AND TARA, AND TARA
HAS BROUGHT SUIT AGAINST GOVERNMENT IN ATTEMPT COMPLET IT TO
GRANT MINING LEASE ON TERMS TARA CONSIDERS TO BE REASONABLE.
TARA HAS SUSPENDED PRELIMINARY OPERATIONS AT MINE SITE AND
PLANS TO LAY OFF 550 WORKERS. GOI FEELS IT IS UNDER POLITICAL
PRESSURE NOT TO BACK DOWN, AND ITS HANDLING OF THE PROBLEM IS
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BEING WATCHED CLOSELY AS POSSIBLE KEY TO PRESENT GOVERNMENT'S

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ATTITUTE TOWARD DEVELOPMENT OF OTHER NATURAL RESOURCES, E.G. PETROLEUM. PRESS REPORTS ON WEEKEND STATE THAT GOVERNMENT MAY HOLD TALKS WITH THREE FOREIGN SHAREHOLDERS IN TARA, AND THIS IS CAUSING NEW CRITICISM OF GOVERNMENT'S HANDLING OF NAVAN AFFAIR. END SUMMARY

1. HISTORY OF NAVAN/TARA PROBLEM GOES BACK TO 1969 WHEN TARA EXPLORATION ACQUIRED PROSPECTING LICENSE FOR NAVAN AREA. DEVELOPMENT POTENTIAL APPEARED GOOD, AND IN APRIL 1971 TARA RECEIVED FROM FORMER MINISTER OF INDUSTRY AND COMMERCE PADDY LALOR LETTER THAT IS REGARDED AS FIRM UNDERTAKING FROM GOVERNMENT TO GRANT IT MINING LICENSE (AS DISTINGUISHED FROM PROSPECTING LOCENSE ON REASONABLE TERMS. ON BASIS OF THIS UNDERTAKING (WHICH IS BEING DISPUTED AND WHICH IS FACTOR IN TARA'S SUIT AGAINST GOVERNMENT), TARA PROCEEDED WITH DEVELOPMENTAL WORK AT MINE SPENDING, IT CLAIMS, SOME 28 MILLION DOLLARS UP TO PRESENT TIME. DURING THIS PERIOD TARA'S PROSPECTS ATTRACTED CONSIDERABLE ATTENTION AND THERE WAS SUBSTANTIAL NEW INVESTMENT IN COMPANY AS WELL AS TRADING IN SHARES. TARA IS CANADIAN-REGISTERED CORPORATION. IN ADDITION TO IRISH INTERESTS, PRINCIPAL SHAREHOLDERS ARE NORTHGATE EXPLORATION (CANADIAN - 30PERCENT), NORANDA (CANADIAN - 16 PERCENT AND COMBINED HOLDING OF CANADA'S COMINCO AND BRITISH-BASED ANGLO-AMERICAN CHARTER CONSOLIDATED, WHICH JOINTLY OWN ABOUT 20 PERCENT.

2. IN MARCH 1973 NEW COALITION GOVERNMENT TOOK OVER AND CURRENT MINISTER JUSTIN KEATING REPLACED PADDY LALOR. IN SEPTEMBER OF SAME YEAR FINANCE MINISTER RICHIE RYAN ANNOUNCED BILL TO TAX MINING PROFITS WOULD BE INTRODUCED INTO DAIL. (UNDER PREVIOUS LEGISLATION MINING COMPANIES HAD ENJOYED TWENTY-YEAR TAX HOLIDAY.) AT SAME TIME KEATING ANNOUNCED THAT NEGOTIATIONS WITH TARA ON MINING LEASE WERE TO BEGIN. BY THIS TIME TARA HAD LARGE INVESTMENT TO PROTECT & WAS ANXIOUS OBTAIN BEST POSSIBLE TERMS. ON OTHER HAND, GOVERNMENT HAD COME UNDER CONSIDERABLE POLITICAL PRESSURE FROM LABOR WHICH CALLED FOR OUTRIGHT NATIONALIZATION OF MINING INTERESTS.

3. SERIOUS NEGOTIATIONS BETWEEN GOVERNMENT AND TARA RESUMED THIS SUMMER IN GALRE OF PUBLICITY. WHILE OFFERS AND COUNTER-OFFERS HAVE BEEN HELD VERY CLOSE, THE EMBASSY UNERSTANDS FROM IRISH CONTACTS THAT THE GOVERNMENT'S OPENING OFFER CALLED FOR STATE OWNER-
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SHIP OF 25 PERCENT OF TARA'S SHARES AND AN OPTION TO BUT ANOTHER WR PERCENT AT PREFERENTIAL RATE. IN ADDITION, GOVERNMENT WOULD RECEIVE 15 PERCENT ROYALTIES AND TAX ON PROFITS (AFTER ROYALTY DEDUCTION) AT RATE OF 50 PERCENT. THUS, GOI THROUGH SHARE OWNERSHIP, ROYALTIES AND TAXES WOULD RECEIVE NEARLY 80PERCENT OF TARA'S NET PROFITS. TARA CONSIDERS THIS TO BE UNREASONABLE.

4. 550 PEOPLE ARE EMPLOYED IN TARA DEVELOPMENT PROJECT AND

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UNIONS ARE CONCERNED THAT THEY WILL LOSE JOBS IF WORK IS STOPPED. THERE IS ALSO OBIOUS STRONG INTEREST OF ALL SIDES IN PRESSING ON WITH DEVELOPMENT OF A MAJOR RESOURCE. AT THE SAME TIME, STUDENTS AND OTHER VOCAL ELEMENTS HAVE LONG BEEN ACCUSING GOVERNMENT OF SELLING OUT IRISH NATURAL RESOURCES TO PRIVATE INTERESTS. THERE IS SOME PRESSURE FOR NATIONALIZATION, AND GOVERNMENT WOULD BE HEAVILY CRITICIZED IF IT NOW CREATED THE APPEARANCE OF BACKING DOWN UNDER THREAT FROM TARA. SOME WRITERS HAVE URGED GOVERNMENT TO HOLD FIRM BECAUSE INTERNATIONAL OIL COMPANIES WOULD SPOT ANY WEAKNESS AND TAKE ADVANTAGE OF IT TO WIN FAVORABLE CONTRACTS FOR EXPLORATION OFF IRISH COAST. NEGOTIATIONS HAVE THUS REOPENED UNDER DIFFICULT CONDITIONS.

5. AN EMBASSY CONTCAT WITH CONNECTIONS IN GOVERNMENT TOLD US BE BELIEVED KEATING HAD MADE A SERIOUS ERROR BY INSISTING ON EXCESSIVELY HIGH SHARE OF PROFITS FOR GOVERNMENT. CONTACT BELIEVED THAT THE COMPANY GENUINELY COULD NOT ACCEPT PROPOSED PROFIT SPLIT, WHICH MIGHT BARELY ALLOW RECOVERY OF INVESTMENT. KEATING, ON OTHER HAND, COULD NOT BEESEEN TO BACK DOWN UNDER THREAT. THE CONTACT BELIEVED THAT ONLY POLITICALLY ACCEPTABLE OUT COME MIGHT TOURN OT TO BE NATIONALIZATION, WHICH HE CONSIDERED BAD OUTCOME IN ECONOMIC TERMS, LARGE PART OF PROBLEM HE SAID WAS RESULT OF PERSONALITY CLASH BETWEEN KEATING AND TARA NEGOTIATOR.

6. ACCORDING TO WEEKEND PRESS REPORTS, KEATING HAS INVITED REPRESENTATIVES OF COMINCO, NORANDA AND CHARTER CONSOLIDATED -- BUT NOT TARA MANAGEMENT NOR IRISH STOCKHOLDERS -- TO MEET WITH HIM IN A BID TO BREAK DEADLOCK ON NEGOTIATIONS. REPORTEDLY, KEATING HOPES TO CONVINCE THE FOREIGN STOCKHOLDERS THAT GOVERNMENT'S OFFER IS REASONABLE. PRESS REPORTS ALSO SUGGEST THAT AT THE MEETING THE "MULTINATIONAL" CORPORATIONS MAY OFFER TO BUILD SMELTING PLANT IN RETURN FOR LEASE OF NAVAN MINES. KEATING'S DIRECT CONTACT WITH FOREIGN
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SHAREHOLDERS HAS REPORTEDLY CAUSED CONSTERNATION AMONG TARA'S DIRECTORS.

7. COMMENT: TARA CASE IS SHAPING UP AS IMPORTANT TEST FOR GOVERNMENT THAT HAS ALREADY BEEN HAVING TROUBLE OVER OTHER ISSUES (ESPECIALLY NORTHERN IRELAND). THERE WOULD BE RISK OF SERIOUS GOVERNMENT SPLIT IF PM COSGRAVE ATTEMPTED TO MAKE KEATING BACK DOWN. OUTCOME OF THE CASE IS ALSO IMPORTANT IN TERMS OF ESTABLISHING PRECEDENT FOR GOI POLICY TOWARD FOREIGN INVESTORS, PARTICULARLY EXTRACTIVE INDUSTRIES, INCLUDING PETROLEUM AS WELL AS MINING. AT THE MOMENT, THERE IS NO OBIOUS SOLUTION THAT IS BOTH POLITICALLY AND ECONOMICALLY VIABLE.
MOORE

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Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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ISecure: 1
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